

**REPORT OF THE AUDIT OF THE
HARRISON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARRISON COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Harrison County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, and each major fund.

Financial Condition:

The fiscal court had net assets of \$6,852,167 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,386,572 in its governmental activities as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$5,796,283 with \$221,446 due within the next year.

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, and each major fund of Harrison County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harrison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harrison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Harrison County, Kentucky, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2005, on our consideration of Harrison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 13, 2005

HARRISON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Dean Peak	County Judge/Executive
Stanley Lemons	Magistrate
Frankie Taylor	Magistrate
Charles Marshall	Magistrate
Jerry Dawson	Magistrate
Robert Lake	Magistrate
Alexander Barnett	Magistrate
Bill Milner	Magistrate
James Darryl Rainey	Magistrate

Other Elected Officials:

Charles W. Kuster, Jr.	County Attorney
Willard L. Turner	Jailer
Linda Furnish	County Clerk
Wanda Marsh	Circuit Court Clerk
Bruce Hampton	Sheriff
Jerry Casey	Property Valuation Administrator
Tom Ware	Coroner

Appointed Personnel:

Deborah Martin	County Treasurer
Candida Lewis	Occupational Tax Collector
Judy Cunningham	Finance Officer
Wanda Jones	Deputy County Judge/Executive

Harrison County

Courthouse



Dean Peak
County Judge/Executive

Cynthiana, Kentucky 41031

Harrison Co. Courthouse
111 South Main Street
Cynthiana, Kentucky 41031
Phone: 859/234-7136
Fax: 859/234-6647

Management's Discussion and Analysis **June 30, 2004**

The financial management of Harrison County, Kentucky offers readers of Harrison County's financial statements this narrative overview and analysis of the financial activities of Harrison County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights

- Harrison County had net assets of \$6,852,167 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,386,572 in its governmental funds as of June 30, 2004. Total debt principal as of June 30, 2004 was \$5,796,283 with \$221,446 due within one year.
- The government's total net assets decreased by \$41,052 from the prior year. This decrease is primarily due to capital assets being depreciated.
- At the close of the current fiscal year, Harrison County balance sheet reported a fund balance of \$1,386,572. Of this amount, \$1,367,356 is available for spending at the government's discretion (unreserved fund balance).
- Harrison County's total indebtedness at the close of fiscal year June 30, 2004 was \$5,796,283 of which \$5,574,837 is long-term debt (due after 1 year) and \$221,446 is short-term debt (to be paid within 1 year).

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Harrison County's basic financial statements. Harrison County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Harrison County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Harrison County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Harrison County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Harrison County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for governmental activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements present functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). Harrison County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services, health and sanitation, airports, bus services, interest, and capital projects.

The government-wide financial statements include not only Harrison County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Harrison County has one such entity, the Public Properties Corporation. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Harrison County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Harrison County are *governmental funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Harrison County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Harrison County maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General, Road, Jail, Federal Grants, E-911, Shropshire Fund, and Public Properties Corporation all of which are considered major funds by the County.

Harrison County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for all of these funds except the Public Properties Corporation to demonstrate compliance with their budgets. A budget is not required to be adopted for the Public Properties Corporation Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Harrison County

Assets	2003	2004
Current and other	\$1,788,857	\$1,502,855
Capital	11,111,758	11,145,595
Total Assets	12,900,615	12,648,450
Liabilities		
Current	211,113	221,446
Long-term	5,796,283	5,574,837
Total Liabilities	6,007,396	5,796,283
Net		
Invested in Capital Assets,		
Net of Related Debt	5,231,758	5,465,595
Unrestricted	1,661,461	1,386,572
Total Net Assets	\$6,893,219	\$6,852,167

**Harrison County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Changes in Net Assets.

Governmental Activities. Harrison County's net assets decreased by \$41,052 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased \$286,002.
- Investment in capital assets, net of related debt increased \$233,837.
- Current and long-term liabilities decreased by \$211,113.
- Revenues were \$5,430,213 as reflected in the Statement of Activities.
- Expenditures totaled \$5,471,265 as reflected in the Statement of Activities.

Financial Analysis of the County's Funds.

As noted earlier, Harrison County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Harrison County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of County governmental funds was \$1,386,572. Approximately 98.6% (\$1,367,356) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$19,216) is reserved to indicate that it is not available for new spending because it is committed.

The County has 7 major governmental funds. These are: 1) General Fund, 2) Road Fund, 3) Jail Fund, 4) Federal Grants Fund, 5) E-911 Fund, 6) Shropshire Fund, and 7) Public Properties Corporation Fund.

1. The General Fund is the chief operating fund of Harrison County. At the end of the June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$819,437, while total fund balance was \$823,746. The county received 1,364,475 in occupational tax revenues. This accounts for approximately 41% of the general fund revenue. \$724,781 was received from real and personal property taxes and accounts for approximately 22% of the county's general fund revenues. Various other taxes and service fees make up the remaining 37% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$103,702 in fund balance at June 30, 2004. The fund balance at the end of the previous year was \$100,899. The fiscal year 2004 expenditures for road projects were \$738,101.
3. The Jail Fund is used to account for the transportation and housing of County's inmates. The Jail Fund had a fund balance at June 30, 2004 of \$20,376, of which \$19,003 was unreserved. That is a decrease of \$220 in fund balance of \$20,596 over the previous fiscal year end. The Jail Fund received \$50,541 from the State of Kentucky. The General Fund contributed \$393,000 to the jail operations.

**Harrison County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

4. The Federal Grants Fund is used to account for the federal monies received. The county received \$153,730 in federal funds for various ongoing projects. The Federal Grants Fund had a fund balance at June 30, 2004 of \$52,574, of which \$52,335 was unreserved. The county received \$28,911 in Homeland Security revenues, \$14,244 in Juvenile Justice grant funding used for a juvenile community service program, and \$11,560 in Federal Tea 21 funds for the renovation of the old jail. The fiscal year expenditures for federal grant projects were \$115,261.
5. The E-911 Fund accounts for the joint operation of the City of Cynthiana and Harrison County's emergency operations communications. It is supported primarily from telephone surcharge fees, and total revenues were \$418,584. The Fund had a fund balance of \$127,670 at the end of the June 30, 2004.
6. The Shropshire Fund accounts for the operation of the animal shelter with the exclusion of salaries and benefits for the animal control officers, part-time help and the maintenance and repairs of vehicles used in the operation of the animal shelter. It is supported primarily from adoption fees, donations and interest from a money market account and a certificate of deposit, with total revenues being \$22,513. The Fund had a fund balance of \$234,482.
7. The Public Properties Corporation Bond Fund had an ending fund balance of \$24,022 at the end of the fiscal year. Its activities are restricted to debt reduction on the Justice Center Bond issue. Outstanding debt on the Justice Center is \$8,500,920 consisting of \$5,680,000 in principal and \$2,820,920 of interest. The debt will be retired in 2022.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$71,580. Budget amendments were made to all areas due to grants received.

Actual operating revenues were \$312,800 more than amount originally budgeted by the Harrison County Fiscal Court. This increase was primarily from grants.

Actual operating expenditures were \$506,833 less than amount originally budgeted by the Harrison County Fiscal Court.

**Harrison County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Debt Administration.

Capital Assets. Harrison County's investment in capital assets for its government activities as of June 30, 2004, amounts to \$11,145,595 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, equipment, vehicles and infrastructure.

Additional information on the County's capital assets can be found in Note 3 of this report.

Table 2
Harrison County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities	
	2003	2004
Infrastructure Assets	\$4,243,875	\$4,392,405
Land	482,500	482,500
Const. in Progress	0	64,726
Bldgs.	5,581,871	5,498,250
Other Equip.	202,663	164,384
Vehicles & Equip.	600,849	543,330
Total Net Capital Assets	<u>\$11,111,758</u>	<u>\$11,145,595</u>

Long-Term Debt. At the end of the 2004 fiscal year, Harrison County had total long-term debt outstanding of \$5,680,000. The amount of this debt due within the next year is \$210,000 and \$5,470,000 is due in subsequent years. This debt is for the debt reduction on the Justice Center Bond issue. This debt is described in Note 5 of the notes to the financial statements.

Financing Obligations. The county has a total debt of \$116,283 for the KOLT leasing project of the Community Action Community Service Building. This debt will be retired in 2013.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests For Information

This financial report is designed to provide a general overview of Harrison County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Harrison County Treasurer, 111 S. Main Street, Cynthiana, KY 41031.

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HARRISON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

HARRISON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,386,572
Note Receivable	11,446
Total Current Assets	<u>1,398,018</u>
Noncurrent Assets:	
Note Receivable	104,837
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	64,726
Land and Land Improvements	482,500
Buildings	5,498,250
Other Equipment	164,384
Vehicles and Equipment	543,330
Infrastructure Assets - Net of Depreciation	<u>4,392,405</u>
Total Noncurrent Assets	<u>11,250,432</u>
Total Assets	<u>12,648,450</u>
LIABILITIES	
Current Liabilities:	
Revenue Bonds Payable	210,000
Financing Obligations Payable	11,446
Total Current Liabilities	<u>221,446</u>
Noncurrent Liabilities:	
Revenue Bonds Payable	5,470,000
Financing Obligations Payable	104,837
Total Noncurrent Liabilities	<u>5,574,837</u>
Total Liabilities	<u>5,796,283</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,465,595
Unrestricted	1,386,572
Total Net Assets	<u>\$ 6,852,167</u>

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HARRISON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,693,163	\$ 2,311	\$ 442,220	\$ 11,561
Protection to Persons and Property	1,298,796	9,672	128,474	
General Health and Sanitation	283,872	15,937	991	
Social Services	106,707		14,244	
Recreation and Culture	110,337			
Roads	937,319	33,395	928,819	
Airports	10,734			
Bus Service	20,567			
Road Facilities	2,000			
Interest on Long-term Debt	265,538		265,538	
Capital Projects	742,232			625,684
Total Governmental Activities	\$ 5,471,265	\$ 61,315	\$ 1,780,286	\$ 637,245

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Occupational Taxes

 Other Taxes

Excess Fees

Enhanced 911 Fees

Miscellaneous Revenues

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ (1,237,071)	\$ (1,237,071)
(1,160,650)	(1,160,650)
(266,944)	(266,944)
(92,463)	(92,463)
(110,337)	(110,337)
24,895	24,895
(10,734)	(10,734)
(20,567)	(20,567)
(2,000)	(2,000)
<u>(116,548)</u>	<u>(116,548)</u>
<u>(2,992,419)</u>	<u>(2,992,419)</u>
530,082	530,082
58,498	58,498
124,617	124,617
1,364,475	1,364,475
294,515	294,515
58,963	58,963
364,878	364,878
<u>155,339</u>	<u>155,339</u>
<u>2,951,367</u>	<u>2,951,367</u>
<u>(41,052)</u>	<u>(41,052)</u>
<u>6,893,219</u>	<u>6,893,219</u>
<u>\$ 6,852,167</u>	<u>\$ 6,852,167</u>

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Federal Grants Fund	E-911 Fund
ASSETS					
Cash and Cash Equivalents	\$ 823,746	\$ 103,702	\$ 20,376	\$ 52,574	\$ 127,670
Total Assets	<u>\$ 823,746</u>	<u>\$ 103,702</u>	<u>\$ 20,376</u>	<u>\$ 52,574</u>	<u>\$ 127,670</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 4,309	\$ 12,220	\$ 1,373	\$ 239	\$ 767
Unreserved:					
General Fund	819,437				
Special Revenue Funds		91,482	19,003	52,335	126,903
Debt Service Fund					
Total Fund Balances	<u>\$ 823,746</u>	<u>\$ 103,702</u>	<u>\$ 20,376</u>	<u>\$ 52,574</u>	<u>\$ 127,670</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,386,572
Amounts Reported For Governmental Activities in the Statement of Net Assets Are Different Because:	
Note Receivable - Amount Due from Sub-lessee, However Paid Directly to Lessor by Sub-lessee, Therefore Not Available as Funds to the County and Not an Asset in the Governmental Funds.	116,283
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	19,507,840
Accumulated Depreciation	(8,362,245)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(116,283)
Bonded Debt	<u>(5,680,000)</u>
Net Assets of Governmental Activities	<u>\$ 6,852,167</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Shropshire Fund	Public Properties Corporation Fund	Total Governmental Funds
<u>\$ 234,482</u>	<u>\$ 24,022</u>	<u>\$ 1,386,572</u>
<u>\$ 234,482</u>	<u>\$ 24,022</u>	<u>\$ 1,386,572</u>
\$ 308	\$	\$ 19,216
		819,437
234,174		523,897
	24,022	24,022
<u>\$ 234,482</u>	<u>\$ 24,022</u>	<u>\$ 1,386,572</u>

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Federal Grants Fund
REVENUES				
Taxes	\$ 2,372,187	\$	\$	\$
In Lieu Tax Payments	4,546			
Excess Fees	58,963			
Licenses and Permits	1,093			
Intergovernmental	803,522	936,320	50,541	153,730
Charges for Services			5,903	
Miscellaneous	89,598	37,795	280	
Interest	17,590	844		
Total Revenues	<u>3,347,499</u>	<u>974,959</u>	<u>56,724</u>	<u>153,730</u>
EXPENDITURES				
General Government	1,036,676			72,758
Protection to Persons and Property	351,964		428,108	21,352
General Health and Sanitation	256,675			
Social Services	86,128			20,579
Recreation and Culture	110,337			
Roads		1,029,003		
Airports	10,734			
Bus Service	20,567			
Other Transportation Facilities and Services	2,000			
Debt Service	11,113			
Capital Projects	567,899	125,627		
Administration	361,651	161,127	21,836	572
Total Expenditures	<u>2,815,744</u>	<u>1,315,757</u>	<u>449,944</u>	<u>115,261</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>531,755</u>	<u>(340,798)</u>	<u>(393,220)</u>	<u>38,469</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	8,481	343,601	393,000	72,758
Transfers To Other Funds	(710,758)			(107,082)
Total Other Financing Sources (Uses)	<u>(702,277)</u>	<u>343,601</u>	<u>393,000</u>	<u>(34,324)</u>
Net Change in Fund Balances	(170,522)	2,803	(220)	4,145
Fund Balances - Beginning (Restated)	994,268	100,899	20,596	48,429
Fund Balances - Ending	<u>\$ 823,746</u>	<u>\$ 103,702</u>	<u>\$ 20,376</u>	<u>\$ 52,574</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

E-911 Fund	Shropshire Fund	Public Properties Corporation Fund	Total Governmental Funds
\$ 364,878		\$	\$ 2,737,065
			4,546
			58,963
			1,093
52,791	991	467,038	2,464,933
			5,903
	15,937		143,610
915	5,585	279	25,213
<u>418,584</u>	<u>22,513</u>	<u>467,317</u>	<u>5,441,326</u>
			1,109,434
478,724			1,280,148
	25,662		282,337
			106,707
			110,337
			1,029,003
			10,734
			20,567
			2,000
		465,538	476,651
		48,706	742,232
129		750	546,065
<u>478,853</u>	<u>25,662</u>	<u>514,994</u>	<u>5,716,215</u>
<u>(60,269)</u>	<u>(3,149)</u>	<u>(47,677)</u>	<u>(274,889)</u>
			817,840
			<u>(817,840)</u>
(60,269)	(3,149)	(47,677)	(274,889)
187,939	237,631	71,699	1,661,461
<u>\$ 127,670</u>	<u>\$ 234,482</u>	<u>\$ 24,022</u>	<u>\$ 1,386,572</u>

The accompanying notes are an integral part of the financial statements.

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**HARRISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**HARRISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(274,889)
--	----	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

Contribution from the Community Action Council for on-behalf payment made to reduce debt incurred by the County for the Community Service Building Renovation and also reduces the note receivable recorded in the governmental activities.		(11,113)
---	--	----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		545,053
Depreciation Expense		(511,216)

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation Payments		11,113
Bond Payments		<u>200,000</u>

Change in Net Assets of Governmental Activities	\$	<u>(41,052)</u>
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**INDEX FOR NOTES
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HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with the a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Harrison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Harrison County Public Properties Corporation:

The Harrison County Public Properties Corporation cannot be sued in its own name without recourse to the Harrison County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

C. Harrison County Elected Officials Not Part Of Harrison County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Harrison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. Harrison County has no business-type activities or fiduciary funds.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements. Harrison County does not have any proprietary or fiduciary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Federal Grants Fund - The purpose of this fund is to account for federal grant funds received and expended.

E-911 Fund - The purpose of this fund is to account for revenues and expenditures of the E-911.

Shropshire Fund – The purpose of this fund is to account for the revenues and expenditures of the Shropshire Animal Shelter.

Public Properties Corporation Fund - This fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to build a justice center. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government designated all its funds as major funds; therefore there are no non-major funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (Mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

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HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings and Building Improvements	\$ 5,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations (Continued)

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted nor are they required by the State Local Finance Officer, for the Public Properties Corporation Fund

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Harrison County Fiscal Court: Cynthiana/Harrison County Public Properties Corporation, Cynthiana/Harrison County Industrial Authority, and Cynthiana/Berry/Harrison County E-911.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component unit as beneficiary/obligee on the bond.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 482,500	\$	\$	\$ 482,500
Construction In Progress		64,726		64,726
Total Capital Assets Not Being Depreciated	482,500	64,726		547,226
Capital Assets, Being Depreciated:				
Buildings	5,832,578			5,832,578
Other Equipment	445,567	5,236		450,803
Vehicles and Equipment	1,062,654	44,133		1,106,787
Infrastructure	11,139,488	430,958		11,570,446
Total Capital Assets Being Depreciated	18,480,287	480,327		18,960,614
Less Accumulated Depreciation For:				
Buildings	(250,707)	(83,621)		(334,328)
Other Equipment	(242,904)	(43,515)		(286,419)
Vehicles and Equipment	(461,805)	(101,652)		(563,457)
Infrastructure	(6,895,613)	(282,428)		(7,178,041)
Total Accumulated Depreciation	(7,851,029)	(511,216)		(8,362,245)
Total Capital Assets, Being Depreciated, Net	10,629,258	(30,889)		10,598,369
Governmental Activities Capital Assets, Net	\$ 11,111,758	\$ 33,837	\$ 0	\$ 11,145,595

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 102,390
Protection to Persons and Property	68,017
General Health and Sanitation	1,535
Roads, Including Depreciation of General Infrastructure Assets	<u>339,274</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 511,216</u></u>

Note 4. Short-term Debt

In July 2003, Harrison County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,586,900, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky advance Revenue Program of \$461.

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$	\$ 1,586,900	\$1,586,900	\$
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 1,586,900</u>	<u>\$ 1,586,900</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2001

On February 7, 2001, the Harrison County Public Properties Corporation issued \$6,075,000 in First Mortgage Revenue Bonds, Series 2001, for the purpose of constructing a Justice Center. The bond issue covers a twenty-year period with an annual principal payment due each March 1, beginning March 1, 2003. Interest is payable semi-annually each September 1 and March 1, beginning September 1, 2001. The county subsequently entered into a sub-lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. The total principal balance outstanding was \$5,680,000 as of June 30, 2004.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, Series 2001 (Continued)

Fiscal Year Ended 30-Jun	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 257,538	\$ 210,000
2006	249,138	220,000
2007	240,337	230,000
2008	230,562	240,000
2009	220,362	250,000
2010-2014	930,169	1,435,000
2015-2019	567,652	1,790,000
2020-2022	125,162	1,305,000
Totals	<u>\$ 2,820,920</u>	<u>\$ 5,680,000</u>

B. Financing Obligations, Capital Lease (Community Service Building Renovation) and Note Receivable

On December 17, 2002, the County entered into a ten-year lease agreement with Kentucky Association of Counties Leasing Trust, in the amount of \$127,396, for the renovation of the Community Service Building. The lease agreement calls for yearly principal payments due in January of each year starting in January 2004 and monthly interest payments starting in February 2003. The county subsequently entered into a sub-lease agreement with the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., which pays the lease payments directly to Kentucky Association of Counties Leasing Trust. The total lease principal balance outstanding was \$116,283 as of June 30, 2004. The total note receivable balance still due the county as of June 30, 2004, was also \$116,283.

Fiscal Year Ended 30-Jun	Scheduled	
	Interest	Principal
2005	\$ 4,890	\$ 11,446
2006	4,381	11,790
2007	3,858	12,143
2008	3,319	12,508
2009	2,764	12,883
2010-2013	5,162	55,513
Totals	<u>\$ 24,374</u>	<u>\$ 116,283</u>

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,880,000	\$	\$ 200,000	\$ 5,680,000	\$ 210,000
Financing Obligations	127,396		11,113	116,283	11,446
Governmental Activities					
Long-term Liabilities	<u>\$ 6,007,396</u>	<u>\$ 0</u>	<u>\$ 211,113</u>	<u>\$ 5,796,283</u>	<u>\$ 221,446</u>

Note 6. Related Party Transaction

In April 2003, Harrison County Fiscal Court and the City of Cynthiana entered into an agreement to purchase a tract of land (approximately 120 acres) from Handy Farm, Inc. of Cynthiana, Kentucky. The total consideration for the acreage was six hundred sixty thousand dollars (\$660,000) (See Note 7 D). Charles Marshall, a magistrate of the Harrison County Fiscal Court, was part owner of the Handy Farm. On April 15, 2004, the Harrison County Ethics Committee investigated this purchase and found no ethical violations in the matter.

Note 7. Commitments and Contingencies

A. Cynthiana/Harrison County Public Properties Corporation

In June 1995, the Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) formed the Cynthiana/Harrison County Public Properties Corporation (the Corporation) for the acquisition and financing of the Cynthiana/Harrison County Community Service Building project. Upon formation of the Corporation, individual and corporate donations were received and the City received a \$350,000 CDBG grant to construct the community service building. The donations and grant were expected to be approximately \$500,000 short of the anticipated construction costs. The Corporation executed a loan agreement with Farmers National Bank to draw up to \$499,000 in order to complete the project. The rent collected from several community service organizations is used to service the debt. The Corporation is managed by the City, and there has been no audit performed for the Corporation in the past five (5) years. As of June 30, 2004, the outstanding principal balance was \$443,526. Should the Corporation default on the loan at Farmers National Bank, the county could be responsible for one-half of the outstanding liabilities.

**HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)**

Note 7. Commitments and Contingencies

B. Cynthiana/Harrison County Industrial Authority

In January 1999, Harrison County Fiscal Court (the County) adopted a resolution, which obligates the county (in conjunction with the City of Cynthiana's matching offer) to cover fifty percent of any expenses "not covered from net sales proceeds of land by the Cynthiana/Harrison County Industrial Authority" (the Authority). This obligation was made in support of the Authority's project to develop an industrial park in Harrison County. In this resolution, the County also committed "the sum of two hundred fifty thousand (\$250,000) dollars" in order for the Authority to receive an additional one and one-half million (\$1,500,000) dollar federal grant. The County's commitment represents one-half of the matching funds needed (in conjunction with the City's matching offer) for the Authority to receive the additional funding. The Authority obtained an \$800,000 loan for the purchase of the land for the project. As of June 30, 2004, the outstanding principal balance on the loan was \$786,315. As of the audit date, the County had distributed approximately three hundred fifty eight thousand dollars (\$358,000) to the Authority.

C. Cynthiana/Berry/Harrison County E-911

In April 1999, Harrison County Fiscal Court (the County) passed an ordinance for "the establishment of an Enhanced 911 Emergency Telephone Service within Cynthiana and Harrison County, Kentucky." An E-911 Advisory Board (the Board) was created with the City of Cynthiana (the City) and the County equally represented on the Board. The City and County subsequently entered into an interlocal agreement which states, in part, "The cost of the E-911 program shall be funded from the receipts from a telephone service surcharge, which has been levied by the County to be collected by the appropriate telephone operating company on each eligible business and residential telephone line operating within Harrison County. The County may fix or change the rate of the telephone surcharge to be applied, but it shall be sufficient to meet the budgetary requirements for the operation of the E-911 program. If at any time moneys collected from the telephone surcharge are insufficient to meet the needs and obligations of the Board for the operation of the E-911 program, the remaining costs shall be apportioned evenly (50/50) between the City and the County and immediately forwarded to the Harrison County Treasurer for use by the Board in the operation of the Center." On March 25, 2003, the county amended the E-911 ordinance, increasing the assessment fee from \$2.50 per month for each telephone line within the City and County, to \$4.00 per month for each telephone line within the City and County. As of the audit date, the system had been implemented, and the fee appears to have covered the operating expenses of the E-911 program at this time.

D. Cynthiana/Harrison County Real Estate Purchase

In April 2003, Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) entered into an agreement to purchase a tract of land (approximately 120 acres) from Handy Farm, Inc. of Cynthiana, Kentucky. The total consideration for the acreage was six hundred sixty thousand dollars (\$660,000). Based on the agreement between the City and County each party is responsible for half the purchase price. The County paid twenty-five thousand dollars (\$25,000) for the option to purchase the land, and an additional two hundred thirty-five thousand dollars (\$235,000) the day of closing. The terms of the purchase agreement call for an additional "four hundred thousand dollars (\$400,000) without interest thereon until the date of maturity, payable as hereinafter set out: This note to be paid in equal yearly installments of one hundred thousand dollars (\$100,000) each commencing one (1) year from the date hereof on the anniversary date hereof and continuing on the same date each year thereafter until paid in full." In April of 2004, the City paid one hundred thousand dollars (\$100,000) thus leaving a current balance of three hundred thousand dollars (\$300,000). The purpose of this real estate purchase was to establish a public park for the citizens of Harrison County and Cynthiana.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Harrison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$5,232,028, due to capital assets and long-term debt previously not reported as well as an adjustment of \$270 for voided checks. The General Fund beginning fund balance has also been restated by \$270 for voided checks.

Note 11. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major construction or reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,996,300	\$ 1,996,300	\$ 2,372,187	\$ 375,887
In Lieu Tax Payments	2,500	2,500	4,546	2,046
Excess Fees	18,580	18,580	58,963	40,383
Licenses and Permits	2,500	2,500	1,093	(1,407)
Intergovernmental Revenue	852,126	921,706	792,409	(129,297)
Miscellaneous	45,000	47,000	89,598	42,598
Interest	35,000	35,000	17,590	(17,410)
Total Revenues	2,952,006	3,023,586	3,336,386	312,800
EXPENDITURES				
General Government	1,114,147	1,157,559	1,036,676	120,883
Protection to Persons and Property	344,966	385,560	351,964	33,596
General Health and Sanitation	241,640	269,640	256,675	12,965
Social Services	122,962	117,962	86,128	31,834
Recreation and Culture	324,750	330,250	110,337	219,913
Airports	8,000	10,734	10,734	
Bus Services	21,026	21,026	20,567	459
Other Transportation Facilities and Services	2,000	2,000	2,000	
Capital Projects	515,000	567,899	567,899	
Administration	545,393	448,834	361,651	87,183
Total Expenditures	3,239,884	3,311,464	2,804,631	506,833
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(287,878)	(287,878)	531,755	819,633
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			8,481	8,481
Transfers To Other Funds	(912,772)	(912,772)	(710,758)	202,014
Total Other Financing Sources (Uses)	(912,772)	(912,772)	(702,277)	210,495
Net Changes in Fund Balance	(1,200,650)	(1,200,650)	(170,522)	1,030,128
Fund Balance - Beginning	1,200,650	1,200,650	994,268	(206,382)
Fund Balance - Ending	\$ 0	\$ 0	\$ 823,746	\$ 823,746

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 827,054	\$ 894,054	\$ 936,320	\$ 42,266
Miscellaneous	16,000	16,000	37,795	21,795
Interest	1,000	1,000	844	(156)
Total Revenues	844,054	911,054	974,959	63,905
EXPENDITURES				
Roads	1,045,504	1,138,004	1,029,003	109,001
Capital Projects	115,000	130,000	125,627	4,373
Administration	265,500	225,000	161,127	63,873
Total Expenditures	1,426,004	1,493,004	1,315,757	177,247
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(581,950)	(581,950)	(340,798)	241,152
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	481,950	481,950	343,601	(138,349)
Total Other Financing Sources (Uses)	481,950	481,950	343,601	(138,349)
Net Changes in Fund Balance	(100,000)	(100,000)	2,803	102,803
Fund Balance - Beginning	100,000	100,000	100,899	899
Fund Balance - Ending	\$ 0	\$ 0	\$ 103,702	\$ 103,702

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 52,844	\$ 52,844	\$ 50,541	\$ (2,303)
Charges for Services	12,000	12,000	5,903	(6,097)
Miscellaneous	1,000	1,000	280	(720)
Total Revenues	65,844	65,844	56,724	(9,120)
EXPENDITURES				
Protection to Persons and Property	441,600	443,200	428,108	15,092
Administration	24,600	23,000	21,836	1,164
Total Expenditures	466,200	466,200	449,944	16,256
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(400,356)	(400,356)	(393,220)	7,136
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	380,356	380,356	393,000	12,644
Total Other Financing Sources (Uses)	380,356	380,356	393,000	12,644
Net Changes in Fund Balance	(20,000)	(20,000)	(220)	19,780
Fund Balance - Beginning	20,000	20,000	20,596	596
Fund Balance - Ending	\$ 0	\$ 0	\$ 20,376	\$ 20,376

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 92,000	\$ 682,252	\$ 153,730	\$ (528,522)
Total Revenues	92,000	682,252	153,730	(528,522)
EXPENDITURES				
General Government	119,660	119,660	72,758	46,902
Protection to Persons and Property		90,252	21,352	68,900
General Health and Sanitation		500,000		500,000
Social Services	22,206	22,206	20,579	1,627
Capital Projects	29,905	29,905		29,905
Administration	20,600	20,600	572	20,028
Total Expenditures	192,371	782,623	115,261	667,362
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(100,371)	(100,371)	38,469	138,840
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	50,466	50,466	72,758	22,292
Transfers To Other Funds			(107,082)	(107,082)
Total Other Financing Sources (Uses)	50,466	50,466	(34,324)	(84,790)
Net Changes in Fund Balances	(49,905)	(49,905)	4,145	54,050
Fund Balances - Beginning	49,905	49,905	48,429	(1,476)
Fund Balances - Ending	\$ 0	\$ 0	\$ 52,574	\$ 52,574

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

E-911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 372,800	\$ 372,800	\$ 364,878	\$ (7,922)
Intergovernmental Revenue	50,000	50,000	52,791	2,791
Miscellaneous	1,000	1,000		(1,000)
Interest	1,200	1,200	915	(285)
Total Revenues	425,000	425,000	418,584	(6,416)
EXPENDITURES				
Protection to Persons and Property	514,500	536,800	478,724	58,076
Administration	25,500	3,200	129	3,071
Total Expenditures	540,000	540,000	478,853	61,147
Excess (Deficiency) of Revenues Over Expenditures	(115,000)	(115,000)	(60,269)	54,731
Net Changes in Fund Balances	(115,000)	(115,000)	(60,269)	54,731
Fund Balances - Beginning	115,000	115,000	187,939	72,939
Fund Balances - Ending	\$ 0	\$ 0	\$ 127,670	\$ 127,670

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	SHROPSHIRE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$	\$	\$ 991	\$ 991
Miscellaneous	12,500	12,500	15,937	3,437
Interest	5,500	5,500	5,585	85
Total Revenues	18,000	18,000	22,513	4,513
EXPENDITURES				
General Health and Sanitation	34,000	34,000	25,662	8,338
Total Expenditures	34,000	34,000	25,662	8,338
Excess (Deficiency) of Revenues Over Expenditures	(16,000)	(16,000)	(3,149)	12,851
Net Changes in Fund Balances	(16,000)	(16,000)	(3,149)	12,851
Fund Balances - Beginning	16,000	16,000	237,631	221,631
Fund Balances - Ending	\$ 0	\$ 0	\$ 234,482	\$ 234,482

HARRISON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation of the Budgetary Comparison Schedule-General Fund
to the Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Funds**

Total Revenues-Budgetary Basis	3,336,386
Plus: Contributions made by Community Action Council	<u>11,113</u>
Total Revenues-Modified Cash Basis	<u><u>3,347,499</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Harrison County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 13, 2005. Harrison County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 13, 2005

